AECL
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ATOMIC ENERGY OF CANADA LIMITED

Third Quarter Financial Report

Interim Condensed Consolidated Financial Statements (Unaudited)

As at and for the three and nine months ended December 31, 2013 and December 31, 2012

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1 MESSAGE FROM THE PRESIDENT

With a new fiscal year on the horizon, AECL heads into the final quarter of 2013-2014 well-positioned for the coming year, having made important progress in the delivery of its programs. With our Corporate Plan to guide us, our employees continue to work to fulfill AECL's Strategic Outcome in support of Government of Canada priorities.

This quarter, AECL continued to dedicate resources to its strategic improvement initiatives, areas of significance in AECL planning and crucial to the corporation's success. Important progress was realized in nuclear safety, productivity, business development and in the stimulation of nuclear innovation through AECL's science and technology activities.

These areas of strategic improvement are important to the future of AECL, helping to create a more sustainable, accountable and productive corporation. They will also help to ensure AECL is more capable of growing its revenues and margins with third-party customers.

In line with this outcome, AECL is nearing the implementation of its new Business Development Framework (BDF). This new framework will change the way AECL pursues new business opportunities and manages relationships with its customers. Among other changes, the BDF will help AECL establish the necessary infrastructure needed to increase its revenue base and drive revenue growth. I'm pleased to report the BDF will be in place by the start of the next fiscal year.

AECL also launched its new website, www.aecl.ca. The new online platform features the latest information on AECL facilities, expertise, technologies and nuclear science and technology programs. It also embraces the latest in social media, multimedia and mobile technology, offering the public and AECL customers and stakeholders a rich and engaging user experience in learning about AECL and how to collaborate with us.

On the topic of AECL customers, we worked closely with the CANDU Owners Group (COG) this quarter on a number of key projects. AECL completed destructive testing of a fuel channel pressure tube that improves the understanding of the lifetime of this important reactor component. We also issued a report to COG concerning the measurement of flows in steam generators to assist the organization in training personnel new to the technology. Both of these activities help ensure Canada maintains a strong nuclear power sector.

With respect to Intellectual Property (IP), AECL successfully patented one of its new technologies. Known as the Composite Angle Profiling Tool or CAPT, this innovative technology detects pipe wall thinning in areas in CANDU reactors with severe access limitations. These types of technologies are crucial to the Canadian industry to make sure utilities can address the emergent technological issues they may face.

From an environmental perspective, one of AECL's scientists represented Canada in a follow-up mission led by the International Atomic Energy Agency (IAEA) concerning the remediation of large contaminated areas near the Fukushima Daiichi power station. The objective of the mission was to evaluate the progress of the ongoing remediation activities achieved since the previous IAEA

mission in 2011. AECL's participation once again demonstrates the respect AECL scientists garner internationally.

Also regarding the environment, AECL successfully retrieved and dispositioned approximately 54,000 litres of nuclear legacy liquid wastes stored at AECL sites. Completion of these activities demonstrates AECL's commitment to clean and healthy environments and responsible environmental stewardship.

In academics, AECL established two new projects with the University of Ottawa and the University of Saskatchewan through its external Call for Proposals for collaborations that support AECL's science and technology priorities. Both projects involve the training of graduate and undergraduate students using AECL expertise, facilities and technology, aligning with AECL's Value Proposition that supports the development of highly qualified people.

Finally, supporting all this work is AECL's commitment to nuclear safety, the corporation's overriding priority. This quarter, AECL conducted a site-wide stay-in exercise at its Chalk River Laboratories that included participation from the COG Fire Protection Working Group as formal observers. This exercise and peer review provides AECL with the opportunity to evaluate its emergency preparedness procedures against industry best practices, and to identify improvement opportunities.

All of these activities contribute to the realization of AECL's Corporate Plan. I'm pleased with the progress that AECL made this quarter and I am confident that we will continue to demonstrate the important role our programs play in the Canadian nuclear industry by executing against our plans. We will continue to serve Canadians as the nation's premiere nuclear science and technology organization.

AECL is living within its means, has been and will continue to pursue multi-year constraint measures. While delivering increased customer value, AECL is containing and reducing costs and financial risks for Canadian taxpayers over time. These AECL priorities are consistent with the Government of Canada objectives for AECL Restructuring, and with our ongoing undertaking for AECL to be transition ready.

I want to extend my sincere thanks to the AECL Board of Directors, our management team and AECL personnel for their efforts in Q3. Their hard work is evident in the results from this quarter, and your contributions confirm the importance of AECL's role in supporting the Government of Canada priorities of a clean and healthy environment, healthy Canadians, a safe and secure Canada, and an innovative and knowledge-based economy.

Robert Walker
President & Chief Executive Officer

2 MANAGEMENT'S NARRATIVE DISCUSSION

2.1 Introduction

Management's Narrative Discussion is designed to provide the reader with a greater understanding of AECL's business, its business strategy and performance, its expectations of the future, and how the Corporation manages risk and capital resources. It is also intended to enhance the understanding of the unaudited interim condensed consolidated financial statements for the third quarter and for the first nine months of 2013-2014 and accompanying notes. Management's Narrative Discussion should therefore be read in conjunction with these documents, in addition to the 2012-2013 AECL Annual Financial Report for the year ended March 31, 2013 and the Second Quarter Financial Report for the three and six-month periods ended September 30, 2013.

Unless otherwise indicated, all financial information presented in Management's Narrative Discussion, including tabular amounts, is in Canadian dollars and is prepared in accordance with International Financial Reporting Standards (IFRS).

Management's Narrative Discussion was authorized for issue by the Board of Directors on February 13, 2014.

2.2 Our Business

AECL is an agent Crown corporation reporting to Parliament through the Minister of Natural Resources Canada. AECL is headquartered at Chalk River, Ontario and employs more than 3,300 full-time staff.

AECL provides value to Canadians as: an advisor to, and agent of, the Government of Canada for public policy purposes; an enabler of business innovation and technology transfer; and a generator of highly-qualified people.

AECL's vision is to be a global partner in nuclear innovation. The Corporation's overriding objective or "strategic outcome" is to ensure that Canadians and the world receive energy, health, environmental and economic benefits from nuclear science and technology, with confidence that nuclear safety and security are assured.

Management organizes its business activities and evaluates its financial results through its Nuclear Laboratories, which is responsible for achieving the business goals established in AECL's Corporate Plan. Management also maintains a small staff complement in Oakville, Ontario under the Wrap-Up Office to manage retained liabilities related to AECL's Commercial Operations business as at the date of its sale in October 2011.

AECL receives federal funding through appropriations and contracts that enable it to: act as an advisor to and agent of the Government of Canada in matters of public policy, produce medical

isotopes, and manage legacy and historic wastes from the past development of nuclear technology in Canada.

AECL also generates revenue from the provision of nuclear science and technology and related testing services. This includes: medical isotopes; support for CANDU-related technology; nuclear research and development and testing services for COG, individual CANDU utilities, Candu Energy Inc. and other third parties; and commercial waste management services for hospitals and universities.

AECL undertakes a series of Programs, identified below, that have been established to fulfil the Corporation's strategic outcome. These Programs are aligned with and support the Government of Canada's priorities for a clean and healthy environment; healthy Canadians; a safe and secure Canada; and an innovative and knowledge-based economy.

Nuclear Industry Capability	Ensures that the Canadian nuclear sector remains safe and productive with access to science and technology resources to address emergent technological challenges, and that Canada maintains a strong nuclear power sector.
Nuclear Safety & Security	Ensures that federal activities, regulations and policies, related to nuclear or radiological issues, are supported by the necessary expertise and facilities.
Clean, Safe Energy	Involves the development of energy technologies that make a beneficial impact on Canada's use of clean energy.
Health, Isotopes & Radiation	Ensures that Canadians experience health benefits from nuclear science and technology.
Nuclear Environmental Stewardship	Ensures that Canada's federal nuclear sites are clean and healthy environments.
Nuclear Innovation Networks	Ensures that the Canadian science and technology communities can advance their innovation agendas through access to federal nuclear innovation infrastructure and expertise.
Mission-Ready Science & Technology Infrastructure	Ensures that scientists and engineers from AECL and its partner organizations have access to licensed facilities and services that enable nuclear innovation and production in a safe campus environment that is fully compliant with all legislation for conducting nuclear-related activities.
Internal Services	Provides the business and administrative support functions and infrastructure to enable the efficient and effective delivery of the above programs.

2.3 Highlights of Third Quarter 2013-2014

2.3.1 Health, Safety, Security and Environment

- AECL held its annual Safety Summit for managers. The summit focused on nuclear security culture and included sessions on personnel, physical, information technology (IT) and intellectual property (IP) security. Awareness training on these issues will continue in the next fiscal year.

- AECL established a new stakeholder group to review its Contractor Management Program. The group is being created to analyze and develop actions to strengthen the oversight of AECL contractors and sponsor training.

- AECL's Occupational Safety & Health department established a weekly meeting to review all medical, first aid and lost time injuries to better understand and prevent these types of events. As part of this initiative, the results of these meetings will be communicated to all AECL personnel on an ongoing basis to improve transparency into these events.

2.3.2 Program Activities

Nuclear Industry Capability

- AECL successfully patented its Composite Angle Profiling Tool (CAPT), which was developed to detect pipe wall thinning in areas in CANDU reactors with severe access limitations. The technology was also recently used to inspect the feeder pipes of a CANDU station. This demonstration represented the successful introduction of this innovative AECL technology to the Canadian nuclear industry, supporting a strong nuclear power sector in Canada.

- AECL completed six large-scale experiments on behalf of Candu Energy Inc. as part of Enhanced CANDU 6 (EC6) licensing support. The experiments validated important safety features of the reactor design. Overall, this work supports Candu Energy Inc. in demonstrating the safety-case behind the EC6.

- As part of an ongoing series of tests for the CANDU Owners Group (COG), AECL completed destructive testing of a fuel channel pressure tube which had been in an operating CANDU reactor for an extended period. The results of these tests will improve the utility's understanding of fuel channel behaviour near end-of-life and also help to inform utility decisions around plant refurbishment.

- In Q3, AECL issued a State-of-the-Art Report (SOTAR) to the COG concerning the measurement of flows in steam generator components. The report is a compilation of knowledge compiled over the past two decades. COG and its members leverage these reports for knowledge retention purposes.

Nuclear Safety and Security

- The beta release of a Graphical Animation Package (GRAPE) was completed and delivered to AECL and the CNSC for testing and evaluation. AECL is collaborating with the CNSC to develop this technology to enhance Canada's emergency response capabilities. The software will be used in computer coding for severe accident analysis by the CNSC to improve the operation of its Emergency Operations Centre.

- AECL conducted a site-wide stay-in exercise at its Chalk River Laboratories that included participation from COG's Fire Protection Working Group as formal observers. This exercise and peer review provides AECL with the opportunity to evaluate its emergency preparedness procedures against industry best practices, and to identify improvement opportunities.

Clean, Safe Energy

- As part of a collaboration to develop a tritium-compatible electrolyser for industrial tritium removal applications, key components were successfully assembled and tested with the support of an AECL collaborator. These components were fabricated using innovative technical contributions developed by AECL. This successful testing allows AECL's partner to proceed in demonstrating the longer-term operation of this process, which has strong commercial potential for both parties.

- AECL collaborated with Russia's TVEL (Teplovidelyauschii Element) to acquire a prospective zirconium-niobium sheathing alloy for CANDU fuel. Improved fuel sheath materials are required in order to achieve higher efficiencies in CANDU fuel. The new material will be fabricated and tested under CANDU conditions to determine its potential performance, a major step forward in this international collaboration to advance an important Canadian energy technology.

Health, Isotopes and Radiation

- AECL successfully completed all shipments of an important repatriation project as part of its obligations under the Global Threat Reduction Initiative. The project was completed on schedule with no safety or radiological events and under budget. This work supports AECL's responsibilities to manage its isotope legacy obligations related to isotope production.

- AECL also completed proof-of-concept experiments at the Chalk River Laboratories as part of an upcoming collaboration with the Canadian Space Agency for the International Space Station. Scheduled for 2015, the project will seek to study the impacts of radiation on the aging of blood cells, which aligns with AECL objectives.

Nuclear Environmental Stewardship

- The International Atomic Energy Agency (IAEA) conducted a follow-up mission concerning the remediation of large contaminated areas near the Fukushima Daiichi power station in October. The objective of this mission was to evaluate the progress of the ongoing remediation activities

achieved since the previous IAEA mission in 2011 October. AECL's Dr. David Rowan was the sole Canadian representative on the 16-person team of international experts and IAEA staff.

- A two-day workshop was held between the US Department of Energy Office of Environmental Management and AECL representatives under the auspices of the cooperation agreement signed between the two organizations earlier in 2013. Collaboration and follow-up activities were confirmed in the areas of groundwater and soil remediation, characterization requirements for building dismantling and the use of robotics in decommissioning.

- Approximately 54,000 litres of nuclear legacy liquid wastes stored at AECL sites were successfully retrieved from storage and safely dispositioned this quarter. Completion of these activities demonstrates AECL's commitment to clean and healthy environments and responsible environmental stewardship.

Nuclear Innovation Networks

- Two new projects were established with the University of Ottawa and the University of Saskatchewan through AECL's external Call for Proposals. Both projects involve the training of graduate and undergraduate students using AECL expertise, facilities and technology. Through these initiatives, AECL continues to support the development of highly qualified people and private sector innovation.

- AECL continued to work with the Canada Science and Technology Museum to develop curriculum-based educational kits for use in high school classrooms across Canada. The agreement was expanded this quarter to include the production of a video series to help educate the public on nuclear science and technology, as well as the development and distribution of Geiger kits with support from the Canadian Nuclear Society. This collaboration supports AECL's Science & Technology Priority to address the public perceptions of the effects of radiation.

Mission-Ready Science & Technology Infrastructure

- AECL continued to make improvements to the NRU control rods this quarter. These efforts resulted in new control rod modules installed in all 18 positions, improving the reliability of these important NRU components.

- AECL established a cross-functional team to oversee several major activities to ensure AECL's electrical infrastructure is reliable in the distribution of electricity across the Chalk River site. AECL also updated its transmission agreement with Hydro One for the Chalk River site, which now has critical status in the Ontario Grid Control Centre. These activities help ensure the availability of AECL facilities and equipment in the execution of its programs.

Internal Services

- AECL released its recently updated Management System Manual and supporting documentation this quarter, which will form the basis of that used by the Site Operating Company going forward.

- AECL officially launched its new website www.aecl.ca. Built using the latest in social media, multimedia and mobile technologies, the new online platform features up-to-date information on Canada's premier nuclear science and technology organization, offering visitors engaging insight into AECL facilities, expertise and technologies, and nuclear science and technology programs.

- AECL made important progress towards the completion of its new Business Development Framework (BDF), which establishes the infrastructure to enhance AECL's customer relationship management and to increase its customer base. The BDF will fundamentally enhance the way AECL pursues new business opportunities and aligns with restructuring objectives to drive revenue growth and position AECL for long-term success.

2.3.3 Commercial Operations (Discontinued Operations)

- AECL's Wrap-Up Office continues to address outstanding obligations arising from its Commercial Operations (Discontinued Operations), including the commercial and legal work required to defend, assert and settle outstanding claims. The Wrap-Up Office also continues to manage its outstanding obligations related to the life extension projects through its subcontractor, Candu Energy Inc.

2.3.4 Financial

- AECL's comprehensive income was $280 million in Q3 2013-2014 compared to a $93 million comprehensive income in the same period of the previous year. The $187 million variance relates primarily to the quarterly revaluation of the decommissioning and waste management liability.

  As per AECL reporting standards, the decommissioning and waste management liability is re-valued quarterly on a discounted or net present value basis using the interest rate in effect at the end of the quarter. When the interest rate decreases, the liability increases. Conversely, when the interest rate increases, the liability decreases. In both cases, the change in liability impacts the Corporation's reported net income or net loss, but is a non-cash income or expense and does not impact AECL's funding requirements for the reporting year.

  The interest rate at December 31, 2013 was 0.17% higher than the previous quarter-end rate while the interest rate at December 31, 2012 was 0.04% higher than the September 30, 2012 rate. As a result, AECL's reported liability decreased by $267 million in Q3 2013-2014 compared to a decrease in the liability of $55 million in Q3 2012-2013.

- The Government of Canada provided funding to allow AECL to move forward with its planned activities in accordance with its Corporate Plan. Several of the more significant funded initiatives during the quarter were:

    - $72 million to support ongoing Chalk River site operations and regulatory, health, safety and environmental needs; science and technology activities; and capital infrastructure renewal and the Isotope Supply Reliability Program (ISRP - NRU operations and licence requirements) initiatives.

    - $41 million for decommissioning and waste management activities.

    - $34 million to support the Wrap-Up Office in addressing AECL's retained obligations associated with the Commercial Operations business at the time of the divestiture.

- The 2013-2014 year-to-date results are generally comparable to the planned results presented and approved in AECL's 2013-2014 Corporate Plan. As such, AECL is on track to meet its commitments, within budget, and the financial performance measures for the current fiscal year as outlined in its 2013-2014 Corporate Plan.

2.3.5 Outlook

- 2013-2014 major priorities and deliverables are described in AECL's 2012-2013 Annual Financial Report in the "Management's Discussion and Analysis" section. These priorities and deliverables have not materially changed in the first nine months of 2013-2014.

2.4 Forward-Looking Statements

This Management's Narrative Discussion has been reviewed by AECL's Audit Committee and approved by AECL's Board of Directors. It provides comments on the performance of AECL for the quarter ended December 31, 2013 and should be read in conjunction with the unaudited interim condensed consolidated financial statements and accompanying notes.

The Management's Narrative Discussion contains forward-looking statements with respect to AECL based on assumptions that management considers reasonable at the time of preparation. These forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause future results to differ materially from current expectations. We caution the reader that the assumptions regarding future events, many of which are difficult to predict, may ultimately require revision.

2.5 Financial Review

2.5.1 Nuclear Laboratories

($ millions)	Three Months Ended December 31, 2013	Three Months Ended December 31, 2012	Nine Months Ended December 31, 2013	Nine Months Ended December 31, 2012
Revenue and Funding				
Revenue	**$ 31**	$ 25	**$ 73**	$ 66
Cost recoveries from third parties and other	**6**	8	**17**	18
Decommissioning and waste management funding	**41**	31	**135**	86
Total revenue and funding	**$ 78**	$ 64	**$ 225**	$ 170
Gross margin	**$ 17**	$ 12	**$ 35**	$ 30
Operating expenses	**$ 89**	$ 89	**$ 260**	$ 283
Financial expenses	**$ 53**	$ 36	**$ 156**	$ 108
Net (loss) income before Revaluation on decommissioning and waste management and other	**$ (20)**	$ 24	**$ 10**	$ (17)

2.5.1.1 Revenue

In Q3 2013-2014, the Nuclear Laboratories generated $31 million in revenue related to its support for nuclear industry capability, compared to $25 million in Q3 2012-2013. On a year-to-date basis, revenues increased to $73 million in 2013-2014 from $66 million in the first nine months of 2012-2013. Revenue included isotope sales, commercial technology sales, nuclear waste management, and research and development activities performed for the CANDU Owners Group. The increase in revenue in Q3 2013-2014 compared to the third quarter in the prior year is the result of increased isotope sales during this period. The improved year-to-date results can be attributed primarily to increased revenue earned on work performed under contract for Candu Energy Inc. as well as increased isotope sales.

2.5.1.2 Cost Recoveries from Third Parties and Other

Nuclear Laboratories manages historic low-level radioactive wastes through the Low-Level Radioactive Waste Management Office and the Port Hope Area Initiative Management Office on a cost recovery basis for Natural Resources Canada. These activities represent the majority of AECL's cost recoveries. Funding of $6 million in Q3 2013-2014 and $17 million for the year-to-date period was provided through Natural Resources Canada to support the Low-Level Radioactive Waste

Management Office and the Port Hope Area Initiative Management Office. This level of funding is generally comparable to the third quarter and year-to-date amounts received for the same periods in the previous fiscal year.

2.5.1.3 Decommissioning and Waste Management Funding

The decommissioning funding enables AECL to provide sound environmental stewardship in addressing its decommissioning and waste management liabilities. Decommissioning and waste management funding recognized during Q3 2013-2014 was $41 million, compared to $31 million in Q3 2012-2013. On a year-to-date basis, $135 million in funding was recognized, compared to $86 million in 2012-2013. These variances are reflective of the increased environmental remediation and decommissioning activities performed in 2013-2014, compared to 2012-2013, with the largest increase being $20 million year-to-date for activities related to the repatriation of highly enriched uranium (HEU).

2.5.1.4 Gross Margin

Gross margins increased from $12 million in Q3 2012-2013 to $17 million in Q3 2013-2014. On a year-to-date basis, gross margins increased from $30 million in 2012-2013 to $35 million in 2013-2014. These increases stem primarily from the increased revenues described above and a higher gross margin as percentage of revenue for products and services sold in this quarter compared to those sold in the same quarter of the prior year.

2.5.1.5 Operating Expenses

Total operating expenses for the Nuclear Laboratories were consistent at $89 million in both Q3 2013-2014 and Q3 2012-2013. On a year-to-date basis, operating expenses decreased to $260 million from $283 million in 2012-2013. The year-to-date decrease relates mostly to an $8 million increase in the Employee benefits liability resulting from the elimination of the voluntary termination compensation recorded in the second quarter of the prior year. The variances also reflect the impact of costs incurred in the first six months of 2012-2013 related to contracted legal expertise to defend disputes adjudicated in Q2 2012-2013.

2.5.1.6 Financial Expenses

Financial expenses in Q3 2013-2014 of $53 million, which primarily include the increase in the net present value of the Decommissioning and waste management provision (due to the passage of time), were greater than the $36 million reported in Q3 2012-2013. On a year-to-date basis, financial expenses were $156 million, compared to $108 million in 2012-2013. These variances are attributable to the higher Decommissioning and waste management provision following the re-estimate undertaken in the fourth quarter of 2012-2013.

2.5.1.7 Net Income (Loss) Before Revaluation on Decommissioning and Waste Management

Nuclear Laboratories reported a net loss before Revaluation on decommissioning and waste management of $20 million in Q3 2013-2014 compared to a $24 million net income in Q3 2012-2013. On a year-to-date basis, a net income before Revaluation on decommissioning and waste management of $10 million was reported compared to a net loss of $17 million in 2012-2013. These variances result mainly from the changes in margin, funding and expenses as described above as well as a decrease in Parliamentary appropriations received.

2.5.2 Commercial Operations (Discontinued Operations)

	Three Months Ended December 31,		Nine Months Ended December 31,	
($ millions)	**2013**	2012	**2013**	2012
Total revenue	**$ 13**	$ 9	**$ 32**	$ 74
Total gross margin	**$ (3)**	$ 6	**$ 16**	$ 63
Operating expenses	**$ 10**	$ 13	**$ 32**	$ 30
(Loss) income from discontinued operations	**$ (13)**	$ (7)	**$ (16)**	$ 33

2.5.2.1 Revenue

AECL continued to earn revenue from certain life extension projects retained by AECL as at the date of the sale of the Commercial Operations business to Candu Energy Inc. Revenue recorded in 2013-2014 relates to recognition of contract revenue with customers resulting from the close out of the various life extension projects.

2.5.2.2 Gross Margin

Gross margin of $16 million in 2013-2014 reflects the revenue recorded in the year, as described above, net of costs associated with the close out of the life extension projects.

2.5.2.3 Operating Expenses

Operating expenses were $10 million in Q3 2013-2014 compared to $13 million in Q3 2012-2013. On a year-to-date basis, operating expenses increased to $32 million from $30 million in 2012-2013. Operating costs are mostly related to the use of third-party service providers to support legal disputes and costs to support the completion of the Enhanced CANDU Reactor development program. The variances in the quarter and year-to-date results are mostly attributable to the change in the volume of work performed by these service providers.

2.6 Consolidated Cash Flow and Working Capital
(Before Discontinued Operations)

SOURCES AND USES OF CASH

($ millions)	Three Months Ended December 31, 2013	2012	Nine Months Ended December 31, 2013	2012
Cash from operating activities	**$ 28**	$ 23	**$ 87**	$ 56
Cash used in investing activities	**(20)**	(13)	**(56)**	(29)
Cash				
Increase	**8**	10	**31**	27
Balance at beginning of the period	**59**	52	**36**	35
Balance at end of the period	**$ 67**	$ 62	**$ 67**	$ 62

Overall, AECL's Q3 2013-2014 closing cash position increased to $67 million from the Q3 2012-2013 level of $62 million.

2.6.1 Operating Activities

Operating activities generated a net cash inflow of $28 million in Q3 2013-2014 compared to $23 million in Q3 2012-2013. On a year-to-date basis, operating activities resulted in a net cash inflow of $87 million compared to $56 million in the same period the previous year. The third quarter variance is a result of increased cash received from customers, partially offset by increased cash paid to suppliers. The year-to-date variance is a result of increased cash received from customers, partially offset by decreased cash received from Parliamentary appropriations and increased cash paid to suppliers.

2.6.2 Investing Activities

Investing activities used cash of $20 million in Q3 2013-2014, compared to $13 million expenditure in Q3 2012-2013. On a year-to-date basis, investing activities used cash of $56 million compared to $29 million in the same period the previous year. These increases result mostly from increased spending to renew capital infrastructure at the Chalk River Laboratories over the first nine months of the year. The third quarter 2012-2013 includes cash receipts of $3 million relating to the sale of non-current assets and the year-to-date 2012-2013 figure also includes a cash receipt of $6 million relating to the sale of AECL's Commercial Operations.

2.7 Highlights of the Consolidated Balance Sheets

($ millions)		December 31, 2013		March 31, 2013		Variance In $	Variance By %
Assets	$	**1,032**	$	1,140	$	(108)	-9%
Liabilities		**7,394**		8,796		(1,402)	-16%
Shareholder's deficit		**6,362**		7,656		(1,294)	-17%

AECL closed Q3 2013-2014 with Assets of $1,032 million, which represents a $108 million decrease in assets from March 31, 2013. The decrease is mainly the result of the adjustments to reflect the agreement to settle a legal dispute with Hydro Quebec.

The decrease in Liabilities of $1,402 million can be attributed primarily to the change in the Decommissioning and waste management provision of $1,267 million, which mainly resulted from an increase in the interest rate used to estimate the reported liability. Also contributing to this decrease was the above mentioned adjustments to reflect the Hydro Quebec legal settlement.

2.8 Funding

2.8.1 Parliamentary Appropriations

($ millions)		Three Months Ended December 31, 2013		Three Months Ended December 31, 2012		Nine Months Ended December 31, 2013		Nine Months Ended December 31, 2012
Parliamentary appropriations - operating								
Nuclear Laboratories	$	**53**	$	93	$	**224**	$	226
Amortization of Deferred capital funding		**3**		3		**10**		9
Discontinued Operations		**34**		14		**34**		193
Total Parliamentary appropriations - operating		**90**		110		**268**		428
Parliamentary appropriations - capital								
Capital infrastructure refurbishment		**19**		14		**51**		34
Total Parliamentary appropriations - capital		**19**		14		**51**		34
Total Parliamentary appropriations	$	**109**	$	124	$	**319**	$	462

AECL receives Parliamentary appropriations to support planned activities. In Q3 2013-2014, the Corporation received $106 million (Q3 2012-2013: $121 million) and recognized a sum of $109 million (Q3 2012-2013: $124 million). On a year-to-date basis the Corporation received $309 million (year-to-date 2012-2013: $453 million) and recognized $319 million (year-to-date 2012-2013: $462 million) in Parliamentary appropriations. The differences between Parliamentary appropriations received and recognized stem from the recording of Amortization of deferred capital funding.

Appropriations are applied to the Nuclear Laboratories programs that are aligned with federal science and technology priorities. Appropriations are also utilized to address the retained liabilities associated with the life extension projects.

The third quarter variances are mainly related to reduced working capital requirements for Nuclear Laboratories and expenditures resulting from AECL's obligations originating from the sale of its Commercial Operations business. The year-to-date variances stem mainly from reduced spending on AECL's life extension projects resulting from the close out of these projects.

There were no Parliamentary appropriations receivable as at December 31, 2013.

2.8.2 Other Funding

	Three Months Ended December 31,		Nine Months Ended December 31,	
($ millions)	***2013***	*2012*	***2013***	*2012*
Other funding				
Cost recoveries from third parties and other	**$ 6**	$ 8	**$ 17**	$ 18
Decommissioning and waste management	**41**	31	**135**	86
Total Other Funding	**$ 47**	$ 39	**$ 152**	$ 104

Amounts received from other government entities for execution of work performed under programs and invoiced in a manner similar to other commercial customers are classified as Other Funding.

2.9 Management of Risks and Uncertainties

Risks and uncertainties are described in AECL's 2012-2013 Annual Financial Report under the section "Management's Discussion and Analysis." Risks and uncertainties associated with the Nuclear Laboratories and retained Commercial Operations liabilities as noted in the 2012-2013 Annual Financial Report have not materially changed in the first nine months of 2013-2014.

3 MANAGEMENT'S RESPONSIBILITY

Management is responsible for the preparation and fair presentation of these condensed consolidated quarterly financial statements in accordance with the Treasury Board of Canada "Standard on Quarterly Financial Reports for Crown Corporations," and for such internal controls as Management determines is necessary to enable the preparation of condensed consolidated quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the condensed consolidated quarterly financial statements.

Based on our knowledge, these unaudited condensed consolidated quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the corporation, as at the date of and for the periods presented in the condensed consolidated quarterly financial statements.

Robert Walker
President & Chief Executive Officer
February 28, 2014
Chalk River, Canada

Steven Halpenny
Chief Financial Officer
February 28, 2014
Chalk River, Canada

4 INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Interim Condensed Consolidated Balance Sheets
(Unaudited)

(thousands of Canadian dollars)	Notes		December 31, 2013		March 31, 2013
Assets					
Current					
Cash		**$**	**66,802**	$	35,461
Trade and other receivables	10		**175,292**		330,143
Current portion of long-term receivables			**23,531**		22,566
Inventory			**27,729**		26,150
			293,354		414,320
Long-term receivables			**87,301**		105,031
Investments held in trust			**42,243**		42,477
Heavy water inventory			**286,990**		290,107
Property, plant and equipment	4		**321,396**		286,371
Intangible assets			**1,145**		1,511
		$	**1,032,429**	$	1,139,817
Liabilities					
Current					
Trade and other payables	7,10	**$**	**97,162**	$	141,281
Customer advances and obligations	10		**20,484**		167,774
Provisions	5,10		**73,330**		74,409
Current portion of decommissioning and waste management provision	6		**192,300**		205,000
Restructuring provision	10		**3,532**		3,873
			386,808		592,337
Decommissioning and waste management provision	6		**6,510,676**		7,765,040
Deferred capital funding	8		**279,873**		238,860
Deferred decommissioning and waste management funding			**189,689**		171,508
Employee benefits	7		**26,903**		27,975
			7,393,949		8,795,720
Shareholder's deficit					
Share capital			**15,000**		15,000
Contributed capital			**242,880**		264,071
Deficit			**(6,619,400)**		(7,934,974)
			(6,361,520)		(7,655,903)
		$	**1,032,429**	$	1,139,817

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements

Interim Condensed Consolidated Statements of Comprehensive Income (Loss)
(Unaudited)

(thousands of Canadian dollars)	Notes	Three Months Ended December 31 2013	2012	Nine Months Ended December 31 2013	2012
Nuclear Laboratories					
Revenue		**$ 30,709**	$ 25,262	**$ 73,145**	$ 65,604
Cost of sales		**13,868**	13,642	**38,288**	35,713
Gross margin		**16,841**	11,620	**34,857**	29,891
Funding	8	**47,020**	38,752	**151,588**	103,941
Operating expenses		**88,835**	88,878	**260,321**	283,181
Operating loss		**(24,974)**	(38,506)	**(73,876)**	(149,349)
Financial income	9	**1,726**	2,083	**5,476**	6,412
Financial expenses	9	**53,189**	35,904	**156,026**	108,496
Net loss before Parliamentary appropriations and Revaluation gain (loss) on decommissioning and waste management and other		**$ (76,437)**	$ (72,327)	**$ (224,426)**	$ (251,433)
Parliamentary appropriations	8	**56,462**	96,100	**234,130**	234,596
Net (loss) income before Revaluation on decommissioning and waste management and other		**$ (19,975)**	$ 23,773	**$ 9,704**	$ (16,837)
Revaluation gain (loss) on decommissioning and waste management provision and other	6	**279,227**	61,639	**1,287,966**	(432,907)
Net income (loss) from continuing operations before discontinued operations		**$ 259,252**	$ 85,412	**$ 1,297,670**	$ (449,744)
Discontinued Operations (Note 10)					
Operating (loss) income from discontinued operations	10	**(13,111)**	(6,501)	**(15,796)**	32,687
Parliamentary appropriations	8	**33,700**	14,400	**33,700**	193,002
Income from discontinued operations		**20,589**	7,899	**17,904**	225,689
Net income (loss)		**$ 279,841**	$ 93,311	**$ 1,315,574**	$ (224,055)
Other comprehensive income (loss)					
Other employee benefit plan actuarial (loss) gains		-	-	-	-
Other comprehensive (loss) income		-	-	-	-
Total comprehensive income (loss)		**$ 279,841**	$ 93,311	**$ 1,315,574**	$ (224,055)

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements

Interim Condensed Consolidated Statements of Changes in Shareholder's Deficit (Unaudited)

(thousands of Canadian dollars)

For the three months ended December 31, 2013

	Share Capital	Contributed Capital	Deficit	Total Shareholder's Deficit
Balance at September 30, 2013	**$ 15,000**	**$ 249,861**	**$ (6,899,241)**	**$ (6,634,380)**
Net income attributable to Shareholder for the period	-	-	279,841	279,841
Transfer to deferred decommissioning and waste management funding	-	(5,931)	-	(5,931)
Transfer to repayable contributions	-	(1,050)	-	(1,050)
Balance at December 31, 2013	**$ 15,000**	**$ 242,880**	**$ (6,619,400)**	**$ (6,361,520)**

For the three months ended December 31, 2012

	Share Capital	Contributed Capital	Deficit	Total Shareholder's Deficit
Balance at September 30, 2012	**$ 15,000**	**$ 278,039**	**$ (6,158,261)**	**$ (5,865,222)**
Net income attributable to Shareholder for the period	-	-	93,311	93,311
Transfer to deferred decommissioning and waste management funding	-	(5,931)	-	(5,931)
Transfer to repayable contributions	-	(705)	-	(705)
Balance at December 31, 2012	**$ 15,000**	**$ 271,403**	**$ (6,064,950)**	**$ (5,778,547)**

For the nine months ended December 31, 2013

	Share Capital	Contributed Capital	Deficit	Total Shareholder's Deficit
Balance at March 31, 2013	**$ 15,000**	**$ 264,071**	**$ (7,934,974)**	**$ (7,655,903)**
Net income attributable to Shareholder for the period	-	-	1,315,574	1,315,574
Transfer to deferred decommissioning and waste management funding	-	(18,181)	-	(18,181)
Transfer to repayable contributions	-	(3,010)	-	(3,010)
Balance at December 31, 2013	**$ 15,000**	**$ 242,880**	**$ (6,619,400)**	**$ (6,361,520)**

For the nine months ended December 31, 2012

	Share Capital	Contributed Capital	Deficit	Total Shareholder's Deficit
Balance at March 31, 2012	**$ 15,000**	**$ 291,867**	**$ (5,840,895)**	**$ (5,534,028)**
Net loss attributable to Shareholder for the period	-	-	(224,055)	(224,055)
Transfer to deferred decommissioning and waste management funding	-	(18,181)	-	(18,181)
Transfer to repayable contributions	-	(2,283)	-	(2,283)
Balance at December 31, 2012	**$ 15,000**	**$ 271,403**	**$ (6,064,950)**	**$ (5,778,547)**

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements

Interim Condensed Consolidated Cash Flow Statements
(Unaudited)

(thousands of Canadian dollars)	Three Months Ended December 31 **2013**	2012	Nine Months Ended December 31 **2013**	2012
Operating activities				
Cash receipts from customers	**$ 46,818**	$ (2,702)	**$ 145,410**	$ (30,382)
Cash receipts from Parliamentary appropriations	**105,700**	107,000	**308,843**	452,145
Cash receipts for decommissioning and waste management activities	**43,612**	29,833	**140,604**	95,877
Cash paid to suppliers and employees	**(126,801)**	(79,816)	**(373,325)**	(368,302)
Cash paid for decommissioning activities	**(41,251)**	(30,847)	**(134,735)**	(86,401)
Payment of proceeds on disposal of discontinued operations to Shareholder	**-**	-	**-**	(7,734)
Interest received on investments (net)	**107**	145	**333**	480
Interest and bank charges paid	**(9)**	(14)	**(30)**	(32)
Cash from operating activities	**28,176**	23,599	**87,100**	55,651
Thereof from discontinued operations	**18,075**	(8,476)	**11,573**	5,676
Investing activities				
Proceeds on disposal of discontinued operations	**-**	-	**-**	6,134
Proceeds on sale of non-current assets	**-**	3,250	**-**	3,250
Acquisition of property, plant and equipment and intangible assets	**(20,242)**	(16,362)	**(55,759)**	(38,057)
Cash used in investing activities	**(20,242)**	(13,112)	**(55,759)**	(28,673)
Thereof from discontinued operations	**-**	3,250	**-**	9,384
Cash:				
Increase	**7,934**	10,487	**31,341**	26,978
Balance at beginning of the period	**58,868**	51,930	**35,461**	35,439
Balance at end of the period	**$ 66,802**	$ 62,417	**$ 66,802**	$ 62,417

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the three and nine-month periods ended December 31, 2013

(Expressed in thousands of Canadian dollars)

(UNAUDITED)

1. The Corporation

Atomic Energy of Canada Limited (AECL or the Corporation) was incorporated in 1952 under the provisions of the *Canada Corporations Act* (and continued in 1977 under the provisions of the *Canada Business Corporations Act*), pursuant to the authority and powers of the Minister of Natural Resources under the *Nuclear Energy Act*.

The Corporation is a Schedule III Part I Crown corporation under the *Financial Administration Act* and an agent of Her Majesty in Right of Canada. As a result, AECL's liabilities are ultimately liabilities of Her Majesty in Right of Canada. The Corporation receives funding from the Government of Canada and is exempt from income taxes in Canada.

AECL conducts its business through the Nuclear Laboratories and the Wrap-Up Office, which manages the retained liabilities associated with AECL's Commercial Operations, sold on October 2, 2011. These organizations aid in resource allocation decisions and assess operational and financial performance. Nuclear Laboratories includes the management of the decommissioning and waste management liability on behalf of the Government of Canada. AECL is domiciled in Canada and its address is Chalk River Laboratories, Chalk River, Ontario, K0J 1J0.

These interim condensed consolidated financial statements were approved and authorized for issue by the Corporation's Board of Directors on February 13, 2014.

2. Restructuring and Corporate Plan

The Government of Canada completed the first phase of its restructuring plan for AECL in 2011-2012 when it sold AECL's Commercial Operations to Candu Energy Inc., a wholly-owned subsidiary of SNC-Lavalin. This first restructuring phase has resulted in the presentation of Commercial Operations as discontinued operations (Note 10).

In February 2012, the Government of Canada formally launched the second phase of its AECL restructuring plan in relation to the Nuclear Laboratories. The Government of Canada's restructuring initiative is focusing on the long-term mandate, governance and management structure of the Nuclear Laboratories.

In February 2013, the Government of Canada announced its intention to contract with the private sector for the management of AECL based on a Government-owned, Contractor-operated model, known as a GoCo. Under this model, AECL's activities will be focused on managing its radioactive waste and decommissioning responsibilities, performing science and technology activities to meet federal core obligations and supporting Canada's nuclear industry on a commercial basis.

Natural Resources Canada is leading the restructuring on behalf of the Minister of Natural Resources. A procurement process is currently underway to procure the services of a private-sector contractor to manage the Nuclear Laboratories, under a GoCo model. The services of nuclear and financial advisors have been selected by Natural Resources Canada to help guide the decision-making as the restructuring process moves ahead in the coming year.

AECL's 2013-2014 Corporate Plan received Governor in Council approval in the first quarter of the 2013-2014 fiscal year. The Corporate Plan is aligned with the restructuring direction provided by the Shareholder and these interim condensed consolidated financial statements have been prepared without making any assumptions as to the outcomes of the second phase of the restructuring. As such, they do not contemplate any changes to AECL's existing activities.

3. Basis of Preparation

a) Statement of Compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34. As permitted under IAS 34, these interim condensed consolidated financial statements do not include all of the disclosures required for annual consolidated financial statements, and should be read in conjunction with the Corporation's audited consolidated financial statements for its fiscal year ended March 31, 2013 and the unaudited interim condensed consolidated financial statements for the three and six-month periods ended September 30, 2013.

The Corporation's interim condensed consolidated financial statements have been prepared based on International Financial Reporting Standards (IFRS) issued and effective as of the balance sheet date.

b) Basis of Presentation

The Corporation's interim condensed consolidated financial statements have been prepared on the historical cost basis, with the exception of certain financial instruments and derivative financial instruments, which are measured at fair value.

These interim condensed consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousands, except where otherwise indicated.

c) Basis of Consolidation

Subsidiaries are entities controlled by the Corporation. The financial statements of subsidiaries are included in the Corporation's financial statements from the date that control commences until the date that control ceases. These interim condensed consolidated financial statements include the accounts of the Corporation's wholly-owned subsidiaries, AECL Technologies Inc., incorporated in the state of Delaware, U.S.A. in 1988; AECL Technologies B.V., incorporated in the Netherlands in 1995; and its interest in a Trust Fund, a Special Purpose Entity (as defined in Note 4(d) of the Corporation's audited annual consolidated financial statements for its fiscal period ended March 31, 2013). All inter-company transactions have been eliminated upon consolidation.

d) Critical Accounting Estimates, Assumptions and Judgments

The preparation of financial statements in conformity with IAS 34 guidelines requires the use of certain critical accounting estimates. It also requires Management to exercise its judgment in the process of applying the Corporation's accounting policies. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant are disclosed in Note 3(c) of the Corporation's audited annual consolidated financial statements for the year ended March 31, 2013.

e) Significant Accounting Policies

Significant accounting policies applied in these interim condensed consolidated financial statements are disclosed in Note 4 of the Corporation's audited annual consolidated financial statements for the year ended March 31, 2013. The accounting policies have been applied consistently to the current and comparative quarters with the exception of the presentation of Parliamentary appropriations and certain reclassifications as disclosed in Note 12.

4. Property, Plant and Equipment

(thousands of Canadian dollars)	**December 31, 2013**	March 31, 2013
Balance - Beginning of period	**$ 286,371**	$ 263,277
Additions and transfers	**53,782**	98,530
Disposals and transfers	**(3,077)**	(40,264)
Other changes	**(2,669)**	(8,968)
Depreciation	**(13,011)**	(21,502)
Impairment	**-**	(4,702)
Balance - End of period	**$ 321,396**	$ 286,371

5. Provisions

(thousands of Canadian dollars)	**December 31, 2013**	March 31, 2013
Contract loss	**$ 16,876**	$ 31,558
Other provisions	**56,454**	42,851
	$ 73,330	$ 74,409

6. Decommissioning and Waste Management Provision

(thousands of Canadian dollars)	**December 31, 2013**	March 31, 2013
Carrying amount - Beginning of period	**$ 7,765,040**	$ 5,543,030
Carrying amount - Beginning of period, current portion	**205,000**	135,500
Liabilities settled	**(142,023)**	(135,342)
Unwinding of discount	**155,792**	145,952
Effect of change in discount rate	**(1,287,441)**	227,508
Revision in estimate and timing of expenditures	**(3,860)**	2,064,173
Revision in estimate and timing of expenditures affecting Property, plant and equipment	**-**	(10,781)
Waste, decommissioning and site restoration costs from ongoing operations	**10,468**	-
Carrying amount - End of period	**6,702,976**	7,970,040
Less current portion	**(192,300)**	(205,000)
	$ 6,510,676	$ 7,765,040

The provision is re-valued at the current interest rate in effect at each balance sheet date.

The provision as at December 31, 2013 was discounted using a rate of 3.24%. The opening balance as at March 31, 2013 was discounted using a rate of 2.50%.

The effect of a change in the interest rate on the provision is recognized in Revaluation gain (loss) on decommissioning and waste management provision and other in the Interim Condensed Consolidated Statements of Comprehensive Income (Loss). The total gain, relating to the interest rate change, for the third quarter was $275,915 (Q3 2012-2013: $62,384) and for the year-to-date period was $1,287,441 (year-to-date 2012-2013: $438,380 charge).

7. Employee Benefits

a) Pension Plan

Employees of the Corporation participate in the Public Service Pension Plan (PSPP). The PSPP is a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the

Corporation to cover current service cost. The President of the Treasury Board of Canada sets the required employer contributions based on a multiple of the employees' required contribution.

Total contributions made on account of current service are as follows:

	Three Months Ended December 31		Nine Months Ended December 31	
(thousands of Canadian dollars)	**2013**	2012	**2013**	2012
Payments by employees	**$ 6,231**	$ 6,032	**$ 16,130**	$ 14,678
Payments by employer	**$ 10,469**	$ 10,924	**$ 27,602**	$ 27,026

The Government of Canada holds a statutory obligation for the payment of benefits relating to the Plan. Pension benefits generally accrue up to a maximum period of 35 years at an annual rate of two per cent of pensionable service, multiplied by the average of the best five consecutive years of earnings. The benefits are coordinated with Canada/Québec Pension Plan benefits and are indexed to inflation.

b) Employee Benefits

The Corporation provides certain voluntary termination compensation (VTC) and other post-employment benefits as described in Note 4(m) of the audited annual consolidated financial statements dated March 31, 2013. The defined benefit obligation is not funded, as funding is provided when benefits are paid. Accordingly, there are no plan assets and the defined plan deficit is equal to the defined benefit obligation of $35.2 million (March 31, 2013: $40.2 million) of which $26.9 million (March 31, 2013: $28.0 million) is recorded as Employee benefits under long-term liabilities and $8.3 million (March 31, 2013: $12.2 million) is recorded as Trade and other payables.

The VTC included in the reported Employee benefits liability is $18.0 million (March 31, 2013: $21.9 million) and is payable in instances of future voluntary resignations and retirements. Consistent with Government of Canada expectations of federal agencies or Crown corporations, AECL began eliminating this benefit in fiscal 2012-2013.

As the elimination of the VTC is agreed upon and implemented, employees eligible for payment of the accrued benefits are offered three options with respect to the timing of the payments. An estimate of the amounts expected to be paid in 2013-2014 is based on the Corporation's most recent actuarial valuation and is included in Trade and other payables.

The Corporation's total expense for employee benefits was $0.5 million for this quarter (Q3 2012-2013: $1.5 million). On a year-to-date basis, the total expense for employee benefits was $3.0 million (year-to-date 2012-2013: $4.2 million). These variances partially result from the elimination of the VTC.

8. Funding

a) Parliamentary Appropriations

AECL segregates its Parliamentary appropriations, which include Statutory Funding, to ensure funds are spent in a manner consistent with the basis for which they were approved. Approved Main Estimates include amounts for Facilities and Nuclear Operations and Research and Development. Approved Supplementary Estimates are in support of the operation and maintenance of the Chalk River Laboratories and are used as an augmentation to the Main Estimates. Statutory Funding relates to amounts associated with obligations pursuant to the divestiture of the Commercial Operations business.

For the three and nine-months ended December 31, 2013, Parliamentary appropriations were recognized as follows:

	Three Months Ended December 31		Nine Months Ended December 31	
(thousands of Canadian dollars)	**2013**	2012	**2013**	2012
Parliamentary appropriations - Nuclear Laboratories, operating				
Nuclear Laboratories, operating	**$ 53,192**	$ 92,911	**$ 224,169**	$ 225,145
Amortization of deferred capital funding	**3,270**	3,189	**9,961**	9,451
Parliamentary appropriations - Nuclear Laboratories, operating	**56,462**	96,100	**234,130**	234,596
Parliamentary appropriations - Discontinued Operations, operating	**33,700**	14,400	**33,700**	193,002
Parliamentary appropriations - capital				
Capital infrastructure refurbishment	**18,808**	14,089	**50,974**	33,998
Total Parliamentary appropriations	**$ 108,970**	$ 124,589	**$ 318,804**	$ 461,596

In Q3 2013-2014, the Corporation received $106 million and recognized a sum of $109 million (Q3 2012-2013: $121 million received and $125 million recognized). On a year-to-date basis the Corporation received $309 million and recognized $319 million in Parliamentary appropriations (year-to-date 2012-2013: $453 million received and $462 million recognized).

The differences between received and recognized Parliamentary appropriations relate to the recording of Amortization of deferred capital funding. Capital funding is received as funds are required but is recognized simultaneously with the depreciation of the

related asset in AECL's Interim Condensed Consolidated Statements of Comprehensive Income (Loss).

There were no Parliamentary appropriations receivable as at December 31, 2013.

b) Other Funding

Other funding was recognized as follows:

	Three Months Ended December 31		Nine Months Ended December 31	
(thousands of Canadian dollars)	**2013**	2012	**2013**	2012
Operating funding				
Cost recoveries from third parties and other	**$ 5,614**	$ 7,991	**$ 16,929**	$ 17,566
Decommissioning and waste management	**41,406**	30,761	**134,659**	86,375
	$ 47,020	$ 38,752	**$ 151,588**	$ 103,941

c) Deferred Capital Funding

Deferred capital funding arises from government appropriations used by the Corporation for capital investments. The reported balances are derived as follows:

(thousands of Canadian dollars)	**December 31, 2013**
Deferred capital funding	
Deferred capital funding as at March 31, 2013	**$ 238,860**
Capital funding recognized during the period	**50,974**
Amortization of Deferred capital funding	**(9,961)**
Deferred capital funding as at December 31, 2013	**$ 279,873**

(thousands of Canadian dollars)	March 31, 2013
Deferred capital funding	
Deferred capital funding as at March 31, 2012	$ 192,314
Capital funding recognized	59,483
Amortization of Deferred capital funding	(12,937)
Deferred capital funding as at March 31, 2013	$ 238,860

9. Financial Income and Expenses

(thousands of Canadian dollars)	Three Months Ended December 31 **2013**	2012	Nine Months Ended December 31 **2013**	2012
Financial income				
Interest on long-term receivables	**$ 1,619**	$ 1,939	**$ 5,143**	$ 5,932
Interest on investments and other	**107**	144	**333**	480
	$ 1,726	$ 2,083	**$ 5,476**	$ 6,412
Financial expenses				
Interest on long-term payables	**$ -**	$ -	**$ -**	$ 79
Unwinding of discount on decommissioning and waste management provision net of trust fund income	**53,189**	35,904	**156,026**	108,417
	$ 53,189	$ 35,904	**$156,026**	$108,496

10. Discontinued Operations

On October 2, 2011, the Government of Canada sold AECL's Commercial Operations to Candu Energy Inc., a wholly-owned subsidiary of SNC-Lavalin, at which point Candu Energy Inc. assumed full ownership and day-to-day operational control over the Commercial Operations.

The sale involved certain AECL-owned assets to Candu Energy Inc. and an exchange of undertakings among the three parties (AECL, SNC-Lavalin and the Government of Canada). A suite of agreements executed at the close of the transaction covers such matters as intellectual property and the new provision of inter-company services between AECL and Candu Energy Inc. It also includes sub-contracting agreements relating to the existing life extension projects, whereby Candu Energy Inc. will complete the contracts as a sub-contractor to AECL, which retains contractual responsibility. All proceeds from the sale of the assets were remitted to the Receiver General of Canada.

A Restructuring provision was recorded for $36.5 million, of which $33.0 million has been paid as of December 31, 2013 (March 31, 2013: $32.6 million) and $3.5 million remained to complete the process (March 31, 2013: $3.9 million).

The Commercial Operations are considered a discontinued operation. Income and cash flows for the Commercial Operations (Discontinued Operations) are reported separately in these interim condensed consolidated financial statements in accordance with IFRS 5.

Results of Discontinued Operations

	Three Months Ended December 31		Nine Months Ended December 31	
(thousands of Canadian dollars)	**2013**	2012	**2013**	2012
Revenue	**$ 12,896**	$ 8,866	**$ 32,318**	$ 73,503
Cost of sales	**15,873**	2,919	**16,644**	10,202
Gross margin	**(2,977)**	5,947	**15,674**	63,301
Operating expenses	**10,134**	12,448	**31,470**	30,614
Operating (loss) income from discontinued operations	**$ (13,111)**	$ (6,501)	**$ (15,796)**	$ 32,687

The following balances included in the Interim Condensed Consolidated Balance Sheets relate to ongoing projects and restructuring costs included in Discontinued Operations:

(thousands of Canadian dollars)	**December 31, 2013**	March 31, 2013
Assets		
Trade and other receivables	**$ 116,858**	$ 263,811
Liabilities		
Trade and other payables	**$ 12,437**	$ 19,220
Customer advances and obligations	**14,403**	165,230
Provisions	**70,330**	57,909
Restructuring provision	**3,532**	3,873

11. Commitment and Contingency

As part of the sale of AECL's Commercial Operations, the Government of Canada, through AECL, began providing Candu Energy Inc. with up to $75 million to support the completion of the Enhanced CANDU Reactor development program. As at December 31, 2013, $72 million (Q3 2012-2013: $40 million) of this amount had been expensed and $68 million (Q3 2012-2013: $33 million) had been paid by AECL. Additionally, under certain conditions outlined in the contract with Candu Energy Inc., AECL may be responsible for reimbursing Candu Energy Inc. for certain costs.

12. Change in Accounting Policy and Reclassification

In the second quarter of the 2013-2014 fiscal year, the Corporation voluntarily changed its accounting policy relating to the disclosure of Parliamentary appropriations in its Interim Condensed Consolidated Statements of Comprehensive Income (Loss) in accordance with IAS 8. As a result, the 2012-2013 Parliamentary appropriations recognized in income ($418 million: year-to-date; and $107 million: third quarter) have been allocated and disclosed separately in the Nuclear Laboratories and Discontinued Operations sections of the Interim Condensed Consolidated Statements of Comprehensive Income (Loss). This change in policy has been made in order to better reflect the use of the funds received.

The Corporation has also reclassified the Amortization of deferred capital funding to conform to the financial statement presentation adopted in the 2013-2014 fiscal year. In the 2012-2013 comparative figures, the $3 million in Q3 and $9 million year-to-date of Amortization of deferred capital funding, has been reclassified from Funding to Parliamentary appropriations in the Nuclear Laboratories section of the Interim Consolidated Statements of Comprehensive Income (Loss) in order to better reflect the nature of this item.

Additionally, the Corporation has reclassified certain figures in the Nuclear Laboratories section of the Interim Condensed Consolidated Statements of Comprehensive Income (Loss) in accordance with IAS 1. In this instance the Corporation has grouped the Funding (Q3 year-to-date 2012-2013: $86 million; Q3 2012-2013: $31 million) and Financial expenses (Q3 year-to-date 2012-2013: $108 million; Q3 2012-2013: $36 million) related to Decommissioning and waste management with those disclosed under Nuclear Laboratories. These reclassifications have been made to provide a clearer presentation of the Corporation's operational results. For both Funding and Financial expenses, the details of these grouped amounts remain available in Notes 8 and 9 of AECL's interim condensed consolidated financial statements, respectively.

These changes did not have a material impact on the Interim Condensed Consolidated Statements of Comprehensive Income (Loss) and did not have any impact on the Interim Condensed Consolidated Balance Sheets. The result of the change in policy and reclassifications on the December 31, 2012 comparative figures are as follows:

(thousands of Canadian dollars)	Three Months Ended December 31 2012	2012 Restated	Nine Months Ended December 31 2012	2012 Restated
Funding - Nuclear Laboratories				
Cost recoveries from third parties and other	$ 7,991	**$ 38,752**	$ 17,566	**$ 103,941**
Amortization of deferred capital funding (1)	3,189	**-**	9,451	-
Funding - Nuclear Laboratories	11,180	**38,752**	27,017	**103,941**
Funding - Decommissioning and Waste Management	30,761	**-**	86,375	-
	$ 41,941	**$ 38,752**	$ 113,392	**$ 103,941**
Financial Expenses - Nuclear Laboratories	$ -	**$ 35,904**	$ 79	**$ 108,496**
Financial Expenses - Decommissioning and Waste Management	35,904	**-**	108,417	-
	$ 35,904	**$ 35,904**	$ 108,496	**$ 108,496**
Parliamentary appropriations	$ 107,311	**$ -**	$ 418,147	**$ -**
Parliamentary appropriations - Nuclear Laboratories	-	**92,911**	-	**225,145**
Amortization of deferred capital funding (1)	-	**3,189**	-	**9,451**
Parliamentary appropriations - Nuclear Laboratories	107,311	**96,100**	418,147	**234,596**
Parliamentary appropriations - Discontinued Operations	-	**14,400**	-	**193,002**
	$ 107,311	**$ 110,500**	$ 418,147	**$ 427,598**
Net income (loss) from continuing operations	$ (7,499) (2)	**$ 85,412** (3)	$ (674,889) (2)	**$ (449,744)** (3)
Net income (loss) from Discontinued Operations	(6,501) (2)	**7,899** (3)	32,687 (2)	**225,689** (3)
Total Comprehensive Income (Loss)	$ 93,311 (3)	**$ 93,311** (3)	$ (224,055) (3)	**$ (224,055)** (3)

(1) Reclassification from funding to parliamentary appropriations
(2) Before Parliamentary appropriations
(3) After Parliamentary appropriations

13. Comparative Figures

Certain of the December 31, 2012 comparative figures have been reclassified to conform to the financial statement presentation of AECL's March 31, 2013 annual audited consolidated financial statements. In the December 31, 2012 comparative figures for the nine months then ended, $5.5 million has been reclassified from Operating expenses to Revaluation gain (loss) on decommissioning and waste management provision and other. Additionally, in the Q3 2012-2013 figures, $8.0 million has been reclassified from the Operating expenses of Discontinued Operations to the Operating expenses of Nuclear Laboratories. These reclassifications do not have any impact on AECL's Interim Condensed Consolidated Balance Sheets or Total comprehensive income (loss) in any period.

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